

**BOARD OF INVESTMENT TRUSTEES
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

MINUTES – OPEN SESSION

January 22, 2010
101 Monroe Street, 15th floor
Rockville, Maryland

Board Members Present: Meg Menke
Steve Farber
Jeff Buddle
Lodge Gillespie
Joe Beach
Jeff Sharpe
Jennifer Barrett
George Willie (via conference call)
Sunil Pandya
Walt Bader

Staff: Linda Herman
Marc Esen
Brad Stelzer
Stuart Potter
Patrick O'Brien
Nina Nguyen

Others Present: Mark Brubaker, Wilshire Associates
Mike Dudkowski, Wilshire Associates
Brad Atkins, Franklin Park
Amy Moskowitz, Counsel to the Board

CALL TO ORDER

The Board members present elected Mr. Farber to chair the meeting. He called the open session of the Board to order at 8:37 a.m.

DETERMINATION OF MEETING

The Board unanimously approved a motion to move into closed session at 8:38 a.m. for the purpose of discussing the investment of public funds, pursuant to Maryland Code, State Government Article, 10-508(a)(5).

Mr. Farber called the open session of the Board to order at 9:10 a.m.

Approval of the Minutes: Mr. Gillespie moved and Ms. Menke seconded, and the Board unanimously approved the minutes of the November 20, 2009 meeting.

ERS – Asset/Liability Study: Mr. Brubaker presented Wilshire’s Asset/Liability Study which included an evaluation of the risk/return efficiency of the current asset mix, projections of future portfolio returns, funded status, and projected growth of plan liabilities versus assets for the next ten years. Results of the study include the recommendation that the Board consider a slight shift in the fixed income portfolio by moving 2.5% from core to high yield and leveraging the global inflation index bond portfolio. The recommended changes to the current investment structure would result in a further diversification of beta risk in the portfolio and a slight increase in the return and risk. The Board discussed the use of leverage and requested Wilshire and Staff provide additional information on the implementation of the recommendation at the March meeting.

ERS – Alpha Research – Risk Budgeting: Mr. Stelzer provided the Board with background information on Staff’s research efforts in rethinking the alpha estimates used in making asset class and manager allocation decisions. He described the model used for evaluating various quantitative and qualitative assessments of managers to project their ability to generate alpha and the resulting revised assumptions for each manager. Staff will provide additional information on correlations at the March Board meeting.

ERS – 2010 Private Equity Commitment Pace: Mr. Atkins reviewed the private equity program’s objectives, guidelines, and constraints and the current portfolio holdings. He discussed Franklin Park’s recommended commitment pace for 2010 and their recommendation that the Board maintain the current investment guidelines. After discussion regarding private equity commitments for 2010, Mr. Beach moved and Ms. Menke seconded and the Board unanimously approved the following resolution:

1001-02 Resolved, That the Board approves an investment plan for 2010 targeting a total commitment of \$70-\$75 million to private equity.

ERS – Private Real Assets Commitment Pace: Mr. Stelzer discussed the private real assets program and reviewed the annual commitment pace under various return scenarios. Staff recommended the Board consider targeting \$60-\$70 million in commitments during 2010, up from the \$50 million approved by the Board for 2009, and that the Board continue to reevaluate the commitment pace annually. Mr. Stelzer also noted the portfolio construction guidelines for real estate by property type and geography, and natural resources based on diversification potential and inflation-hedge capabilities that were approved by the Board in May 2009. After discussion, Mr. Beach moved and Ms. Barrett seconded and the Board unanimously approved the following resolution:

1001-03 Resolved, That the Board approves an investment plan for 2010 targeting a total commitment of \$60-\$70 million to private real assets.

RHBT – Asset Allocation Review: Mr. O’Brien presented a review of the current asset allocation and investment strategy for the RHBT. He discussed the implications of Wilshire’s 2010 return assumptions on the optimization of the portfolio and recommended the Board consider minor adjustments to the existing asset mix, including equal weighting U.S. and Non-U.S. stocks, adding a new 10% allocation to high yield bonds and shifting 6% from international

equities to emerging markets. Staff recommends that the high yield allocation be actively managed by one of the ERS' current high yield managers. They also recommend the emerging markets allocation be managed passively through BlackRock's emerging markets fund. After discussion by the Board, Mr. Bader moved and Mr. Gillespie seconded, and the Board unanimously approved the following resolution:

1001-04 *Resolved, That the Board approves the asset allocation presented and the addition of an actively managed high yield product and the BGI Emerging Markets Fund, subject to contract negotiations.*

Preliminary FY10 Estimated & FY11 Requested Budgets – All Plans: Ms. Herman presented the annual budget for the three retirement plans. She noted the actual FY 09 expenses were 4.0% lower than the approved budgeted amounts. FY 10 costs are projected to be 20% lower than the approved FY 10 budget amount primarily due to lower recordkeeping costs for the RSP and GRIP and lower salary costs due to staff vacancies. The FY11 requested budget is 3.5% lower than the FY10 approved budget. After discussion, Mr. Beach moved and Ms. Barrett seconded, and the Board approved, the following resolution:

1001-05 *Resolved, That the Board approves the Board-related expenses associated with the Employees' Retirement System, Retirement Savings Plan, Deferred Compensation Plan, and the Retiree Health Benefits Trust budgets for FY10 and FY11, to be updated for salary and benefit changes as supplied by the Office of Management and Budget.*

Retirement Savings Plan – Administrative Fee: Ms. Herman discussed the analysis of the Retirement Savings Plan's cash balance and expenses for FY 09 and projected levels in FY 10 and FY 11. Due to the current cash balance and projected expenses for FY11, Ms. Herman recommended that the Board transmit a request to the CAO that there be no administrative fee charged in for FY11. She also recommended that the Board consider granting a contribution holiday in FY10 for a total amount of \$400,000 if the number of RSP participants remains constant. Ms. Menke moved and Mr. Gillespie seconded and the Board unanimously approved the following resolution:

1001-06 *Resolved, That the Board approves no administrative fee for RSP in FY11. In addition the Board will consider granting an employer contribution holiday in FY10 holiday at a later meeting.*

Compliance & Audit Committee Report: Mr. Bader discussed the results of the annual audit conducted by Clifton Gunderson, the Plans' auditors and the Comprehensive Annual Financial Report prepared by Staff. He noted that there was no management letter issued recommending changes in procedures/processes. Ms. Herman briefed the Board on the discussion of benefit calculations.

Annual Affirmation by Board Members: Ms. Herman presented the annual affirmation required by Board members of compliance with the Board's Statement of Professional and Ethical Code. All Board members in attendance signed the affirmation. Ms. Herman will follow-up with the members not in attendance.

Bylaws – Amended: Ms. Moskowitz presented the amendments to the Bylaws requested by the Board related to facilitators and membership on the Compliance and Audit Committee. She also discussed proposed technical amendments related to terms and Bylaw amendment procedures. After discussion, Mr. Bader moved and Mr. Buddle seconded, and the Board approved the following resolution:

1001-07 Resolved, That the Board approves the amended Bylaws. In addition, the Board appoints Mr. George Willie to the Compliance & Audit Committee.

Due Diligence & Continuing Education: Ms. Herman noted that there were three requests for travel which required approval. The Board approved the requests.

There being no further business of the Board, the open meeting session was adjourned at 11:00 a.m.

Respectfully submitted,

Joseph Adler, Secretary